

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BBF3034 – ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS

(All sections / Groups)

13 OCTOBER 2015

2.30 p.m – 4.30 p.m

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 Questions only.
2. Attempt **FOUR** out of **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- a. Identify and describe the two major reasons for analysing a company's financial statements. (12 marks)
- b. Isha Co. starts its business by raising RM250,000 in cash (RM150,000 from equity issuance and RM100,000 by issuing 6% bonds at par. The entire amount of cash was used by Isha to buy a building, which it rents out for RM20,000 per year. The opening balance sheet of Isha Co. for the first year of its operation is given below.

	Year 1
<u>Assets</u>	
Cash	RM0
Building	250,000
	<u>250,000</u>
<u>Liabilities and Shareholders' equity</u>	
Long-term debt	100,000
Shareholders' equity	150,000
	<u>250,000</u>

The building is valued at RM300,000 at the end of Year 1. Moreover, the market value of the bonds had fallen to RM90,000.

Assumptions:

- useful life of the building is 40 years
- building's salvage value is RM80,000 at the end of that period.
- rental income is received on the last day of the year.
- interest on bonds is also paid on the last day of the year.

Prepare the year-end balance sheet and income statement of Isha Co. based on *fair value accounting* and *historical cost accounting*. (13 marks)

(Total: 25 marks)

QUESTION 2

As a financial analyst, you are requested to analyse a company which has a reported earnings of RM60,000 for the year end 2014 and a book value of RM400,000 at the end of year 2014. The dividend payout ratio is 40% and the earnings are expected to grow at 5% for the next two years after which it is expected to grow at 3% a year in perpetuity. The company's cost of debt is 8%, while the cost of equity is 10%. Compute the price of the company's shares at the year-end 2014 if the company has 30,000 shares outstanding.

(Total: 25 marks)

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QUESTION 3

- a. Sharewin Corp.'s condensed balance sheet for Year 2 is shown below:

Assets	
Current assets	RM250,000
Noncurrent assets	1,750,000
Total assets	<u>RM2,000,000</u>

Liabilities and Equity	
Current liabilities	RM200,000
Noncurrent liabilities (8% bonds)	675,000
Common stockholders' equity	1,125,000
Total liabilities and equity	<u>RM2,000,000</u>

Additional information:

1. Year 2 net income is RM157,500.
 2. Income tax rate is 50%.
 3. All assets and current liabilities are considered to be operating.
- i. Compute the net operating profit after tax (NOPAT) and return on net operating asset (RNOA) for Year 2. (9 marks)
 - ii. Compute the return on common equity (ROCE) for Year 2. (3 marks)
- b. Illustrate the disaggregation of RNOA and ROCE. Explain each of the components. (10 marks)
- c. Differentiate between *year-to-year change analysis* and *index-number trend analysis*. (3 marks)

(Total: 25 marks)

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QUESTION 4

a.

Sales	RM1,500,000
Cost of goods sold	RM700,000
Beginning receivables	RM150,000
Ending receivables	RM250,000
Beginning inventories	RM350,000
Ending inventories	RM400,000

Using the data above, calculate the following ratio:

- | | |
|---------------------------------|-----------|
| i. Accounts receivable turnover | (3 marks) |
| ii. Collection period | (3 marks) |
| iii. Days' sales in receivables | (3 marks) |
| iv. Inventory turnover | (3 marks) |
| v. Days to sell inventory | (3 marks) |
| vi. Days' sales in inventory | (3 marks) |
| vii. Conversion period | (3 marks) |

- b. Return ratios are typically used in TWO ways. Explain each one of them. (2 marks)
- c. Explain the fundamental factor model. (2 marks)

(Total: 25 marks)

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QUESTION 5

Below is the balance sheet for Mona Corporation.

**Mona Corp.'s Balance Sheet as at December 31, 2013 and 2014
(in thousands)**

	2014	2013
Cash	RM 50,000	RM 40,000
Receivables	220,000	300,000
Inventories	180,000	100,000
Total current assets	RM 450,000	440,000
Net fixed assets	300,000	250,000
Total assets	RM 750,000	RM
Accounts payable	RM 100,000	RM 80,000
Notes payable	50,000	60,000
Total current liabilities	RM 150,000	RM 140,000
Long-term debt	150,000	200,000
Common stock	200,000	120,000
Retained earnings	250,000	230,000
Total liabilities and equity	RM 750,000	RM690,000

The net income and depreciation amount for year 2014 is RM100,000 and RM30,000 respectively. Prepare the statement of cash flows for year 2014 using the indirect method.

(Total: 25 marks)

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